

149
Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

21 September 1983

Burma's Economic Dilemma

25X1

Summary

Severe foreign exchange and petroleum shortages threaten the modest economic progress Burma has made since the mid-1970s. For the fiscal year ending last March, growth slowed to less than 3 percent--well below the 6 to 7 percent average of recent years. Depressed foreign demand for rice--Burma's major export--and growing foreign debt repayment have reduced foreign exchange reserves to about \$35 million, less than one month's imports. These factors have forced Rangoon to cut back on the purchases of fertilizer and equipment for major development projects. Moreover, serious shortfalls in oil production are hindering both manufacturing and agricultural production. As a result, Burma is seeking increased foreign financial assistance. In our view, however, Rangoon will not over the next year accept any aid that will require major adjustments in economic policy.

25X1

The Slow Move From Isolation

A decade of economic stagnation, culminating in food riots in Rangoon in the early 1970s led the ruling Burma Socialist Program Party to ease somewhat the autarchic, inward-looking economic policies that characterized Burma under the first decade of party leader Ne Win's rule. While maintaining Burma's isolationist stance in foreign policy and continuing to refuse

This memorandum was prepared by [redacted] Office of East Asian Analysis. Information available as of 14 September 1983 was used in its presentation. Comments and queries are welcome and may be directed to Chief, Southeast Asia Division [redacted]

25X1

25X1

25X1

EA M 83-10184

25X1

foreign private investment, Rangoon adopted measures that liberalized to a modest degree the rigid, centrally planned economy by:

- Resuming participation in World Bank and Asian Development Bank funded projects.
- Accepting bilateral loans and grants--mostly from Japan --as long as no strings were attached.
- Instituting production incentives in agriculture.
- Placing some of the many state enterprises on a commercial footing. [redacted]

25X1

Rangoon funnelled most of the renewed foreign aid, averaging about \$500 million a year, into the agricultural sector, creating a successful green revolution. The widespread adoption of high-yielding rice along with aid-financed fertilizer and pesticides spurred a more than 50-percent increase in rice production from 1975-81, [redacted] export earnings from rice more than doubled to over \$200 million (See attached table). Output of other crops also increased, although to a smaller degree. Despite the continued stagnation of the manufacturing sector, the agricultural boom pushed Burma's economic growth to a 6.4 percent annual rate over this period, compared with less than 3 percent a year in the previous decade, a rate which barely kept up with population growth. [redacted]

25X1

25X1

Growth Momentum Slows

Balance-of-payments problems caused by a sharp drop in export earnings and rising debt repayment slowed economic growth for the fiscal year ending in March once again to less than 3 percent, according to the US Embassy. Despite a 5-percent rise in the volume of rice exports last year, earnings fell by more than 25 percent because of depressed international rice prices. The low prices have continued throughout 1983. Rangoon's attempts to make up the earnings' shortfall by further increasing the volume of rice exports are hindered by the poor quality of Burmese rice and bottlenecks at the ports, according to international rice analysts. [redacted]

25X1

Moreover, Burma is just starting to feel the impact of rising debt service costs under the multilateral and bilateral loans that were made during the past decade. [redacted]

25X1
25X1

[redacted] principal and interest payments on the approximately \$2 billion foreign debt have risen from about \$100 million in 1981 to about \$170 million this year. Rangoon must now pay about 40 percent of its export earnings to service its foreign debt. As a result of the increased debt service and the drop in export earnings, Burma's foreign exchange reserves have

plummeted to about \$35 million, less than one month's imports, compared with reserves of \$100 million as recently as the summer of 1982. [redacted]

25X1

A continuing decline in oil production is aggravating Rangoon's economic problems. Output from Burma's aging fields peaked at 10.8 million barrels in 1979 and has declined by at least 20 percent in the ensuing three years, according to the US Embassy. [redacted] the sharp drop in production resulted from poor management techniques by the national oil company, which over-punctured the field--thus permanently reducing gas pressure--in an attempt to increase production. [redacted]

25X1

25X1

This shortfall in oil production, coming at a time when economic expansion increased the demand for energy throughout the economy, has slowed output in both agriculture and industry. Shortages of energy for transport, milling operations, and irrigation have restricted agricultural production and exports. Many manufacturing establishments now lack the fuel to operate full time. [redacted]

25X1

Rangoon's Response

Rangoon has moved slowly to counter the deteriorating economy. We believe a poor statistical system and a dose of wishful thinking kept top Burmese officials unaware of the severity of the country's economic problem's until early this year. By last spring, however, foreign exchange reserves had fallen to such a low level that Rangoon finally instituted stricter foreign exchange controls, reduced crucial imports such as fertilizer and machinery, and limited official travel abroad, according to the US Embassy. In the last few months, Rangoon has also asked aid suppliers to bring in more materials and spare parts in order to save foreign exchange, [redacted]

25X1

[redacted] Government officials have also begun to use every public speaking opportunity to exhort the Burmese to increase exports. [redacted]

25X1

25X1

In addition to measures to improve the trade balance, Rangoon is looking for increased outside assistance to finance its external deficit. Last month Burma drew \$30.8 million from the IMF Compensatory Financing Facility, the second such drawing in six months. IMF member countries are automatically entitled to borrow from this Facility when exports decline. Rangoon has also asked Japan to provide balance-of-payments assistance. According to the US Embassy, Japan has agreed in principle to provide \$10-20 million as part of its annual aid package, which totals about \$225 million. [redacted]

25X1

Rangoon's efforts to alleviate the oil shortage by increasing drilling activities have met with little success. Although Ne Win announced the discovery of three "major" onshore oil fields in 1981, an industry journal claims reserve estimates

were exaggerated. Offshore prospects appear more promising, with a natural gas find last winter in the Gulf of Martaban. Even if additional drilling demonstrates substantial proved gas reserves, however, it will take several years and substantial funds to develop the fields. [redacted]

25X1

Looking Ahead

Over the next 18 months, continued financial problems are likely to keep Burmese economic growth well below the 6 percent called for in the current four-year economic plan. Both the US Embassy and international rice analysts believe Rangoon's plans to increase rice exports by almost \$100 million this year are optimistic because of the continuing low international price and drought in some growing areas. The oil shortage will persist for some time because the country's weak financial position impairs Rangoon's ability to expand petroleum exploration or finance substantial imports. [redacted]

25X1

Rangoon's efforts to deal with the country's economic difficulties also will be hindered by the recent political upheaval. In May, Ne Win removed top aide Tin Oo from both government and party positions because of his increasingly open attempts to place his supporters in crucial party and government jobs and maneuver himself into position as unchallenged successor to the 73-year-old party chairman. The purge of Tin Oo supporters, which we believe will continue at the Congress of the Burma Socialist Program Party in October, has left many government positions temporarily vacant and slowed further the already time-consuming decisionmaking process. Most economic decisions, down to the level of hiring an assistant plant manager, require cabinet action. [redacted]

25X1

As the slowdown persists, Rangoon will need additional foreign financial assistance beyond what it has been promised by the IMF and Japan. The most likely source of additional balance-of-payments financing would be an IMF standby credit. These loans, however, require the borrowing country to adopt economic reforms and domestic austerity measures. In Burma's case the IMF would probably require a devaluation of the kyat, a reduction in the government's budget deficit, and a further liberalization of international trade. [redacted]

25X1

In the past Rangoon has been unwilling to accept multilateral or bilateral aid that mandated changes in Burmese economic policy. We believe that Ne Win and his colleagues, valuing national self-reliance above rapid economic growth, still will resist such conditions. In the wake of the purges of government officials, Ne Win's economic advisers are even more unlikely to push hard for a further opening of the economy to the

West--a position long associated with the discredited Tin Oo. Nonetheless, if Rangoon believed that the economic deterioration was sharp enough to lead to the recurrence of the food shortages and urban unrest of the early 1970s, Ne Win would move hesitantly in the direction of economic reform. [redacted]

25X1

Page Denied

SUBJECT: Burma's Economic Dilemma

Distribution:

Original - OEA/SEA/ITB

1 - Joseph Winder, State
1 - Alan Kitchens, State
1 - Kent Stauffer, Commerce
1 - William Wise, Pentagon

1 - [redacted], DIA

1 - Dr. Robert Emery, Federal Reserve Board

1 - [redacted] DIA

1 - Mike Petasky, Pentagon

1 - David Blessing, Pentagon

1 - Daniel O'Donohue, State

1 - OEA/SEA

1 - OEA/MSI

1 - OEA/NEA

1 - OEA/CH

1 - D/OEAA

1 - OEA/Research Director

1 - PDB

1 - C/NIC

1 - NIO/EA

2 - DDI

1 - Executive Director

~~1~~ - CPAS/IMD/CB

1 - C/PES/DDI

1 - OCR/ISG

1 - C/EA [redacted]

25X1

25X1

25X1

[redacted]

25X1